

DATE OF MEETING October 18, 2023
AUTHORED BY Wendy Fulla, Deputy Director, Finance
SUBJECT 2024 Project Contingency Allocation

OVERVIEW

Purpose of Report

To advise the Finance and Audit Committee of changes in the approach to project plan budgeting and request a project contingency for the 2024 project plan. |

Recommendation

That the Finance and Audit Committee recommend that Council:

1. Direct staff to add a \$870,000 project contingency budget for 2024 to the 2024 – 2028 Provisional Financial Plan funded from 2023 surplus; and
2. Direct staff to incorporate the new approach to project contingencies in future Financial Plans.

BACKGROUND

On an annual basis the City updates the 10 Year Project Plan to reflect changes in estimates, scope or timing as well as incorporate new priorities or objectives. The majority of project budgets include a contingency based on stage of project development. It is reasonable to anticipate that since budgets are developed before full details of scope, design, schedule and risks are known not all projects will equal the approved budget. In addition, there are often opportunities, projects or initiatives that arise throughout the year.

The City has a budget transfer policy that allows funding throughout the year to be moved between projects. Generally funding is transferred from projects that are completed under budget, or cancelled to projects that require additional funding or new projects to address emerging issues or opportunities. Significant funding shortfalls or larger emerging issues or opportunities are typically referred to Council for direction and funding.

Depending on timing and/or type of funding required it is not always possible to move funding from a completed project. Historically the General Fund project plan has included project contingency budgets under Engineering & Public Works (ENGPW) section to address smaller developer cost shares, changes in scope, new project opportunities/issues or cost overages. A project contingency has also historically been included in the Police Services section to address projects that may arise during the year. These contingencies ensure that projects can proceed in a timely manner without the need to return to Council or cancelling other planned projects to make funding available.

City divisions without a project contingency budget, have limited ability to address smaller opportunities/issues or project scope changes/cost overruns without cancelling another planned project or returning to Council for additional funding.

The 2023 budget includes \$100,000 for the Police Services contingency, \$325,000 for ENGPW contingencies and \$100,000 for developer cost share opportunities.

DISCUSSION

Each year as part of the project planning cycle, projects are prioritized based on available resources, both financial and non-financial. This year, as in the past couple of years, global inflation and the expiry of the current Community Works Fund (CWF) agreement on March 31, 2024, resulted in additional pressures in balancing the project plan. Staff have had to delay, reduce scope or remove projects from the 5 Year Project Plan to present a balanced 2024 – 2028 Draft Financial Plan to Council this fall.

Among the changes made to balance the project plan has been the removal of ENGPW and Police Services project contingencies. A new more consistent approach that allows flexibility to address project overages and opportunities as they emerge is being suggested.

Developer Cost Shares:

The 2024 – 2028 Draft Financial Plan includes an annual budget of \$100,000 for smaller cost share opportunities. This allows staff to respond quickly to opportunities that arise in conjunction with developer projects and provide a benefit to the City. Larger cost shares will continue to be budgeted as a separate project when information is available in time to be included in the Financial Plan development. Larger emerging opportunities with a short time frame will continue to be brought to Council for consideration and funding.

General Fund Project Contingency:

To address removal of specific contingencies, staff recommend that going forward a General Fund project contingency budget be calculated and included on an annual basis. The project contingency budget would be reallocated throughout the year as needed, following the City's budget transfer policy.

The proposed project contingency would be based on a percentage of total capital projects, reflective of current economic conditions, and accessible by all departments executing capital projects. Each year prior to completion of the draft financial plan staff would bring forward the recommended project contingency for the following year and funding options for Council's consideration. This approach ensures that projects are not delayed or removed from the project plan during project prioritization to fund project contingencies.

All projects will continue to have a contingency built in and larger shortfalls on tenders will continue to be brought to Council for additional funding from reserves if Council wants to proceed with the project.

Should Council support the concept of a General Fund project contingency, staff would incorporate this into project planning going forward. This has the advantage of providing clarity and certainty to project and financial planning and creates an allowance for unforeseen items.

2024 Project Contingency:

The 2024 Draft Capital Project Plan for the General Fund totals \$28,991,658 (excluding internal orders). Staff are recommending a 3% contingency budget in 2024 or \$870,000 to allow for ongoing needs throughout the year. This funding will help address cost escalations that exceed planned as well as smaller opportunities or issues that arise during the year. Any unspent contingency at the end of the year will be available to fund other Council priorities.

Funding Options:

There are a several funding options available to fund the proposed 2024 project contingency budget:

1. 2023 Surplus – at the end of Q2 the General Fund was projected to have a \$3.9M surplus of which \$1.1M will be required to bring the General Financial Stability Reserve up to its \$17M minimum balance for 2024. Allocation of \$870,000 to a project contingency budget will still leave approximately \$1.9M available to be allocated to other priorities/reserves.
2. Strategic Infrastructure Reserve (SIR) – based on the 2024 – 2028 Draft Financial Plan the SIR has a projected 2024 closing balance of \$1.8M with a minimum balance requirement of \$345,300. Funding from this reserve would limit Council's resources to fund other strategic priorities that may arise during the year.
3. Property Taxation – a one time funding allocation above base project funding from property taxation. The projected property tax impact would be approximately 0.6%.
4. Cancel 2024 Projects – Council could direct staff to delay or cancel projects currently included in the 2024 Draft Project Plan to make capacity available to fund a project contingency. Staff have engaged in a several rounds of project prioritization to balance the draft project plan and remaining projects are considered a priority by staff.

Alternatively, Council could choose to not proceed with a contingency project budget. This may result in planned projects being cancelled to address funding shortfall or in missed opportunities.

OPTIONS

1. That the Finance and Audit Committee recommend that Council:
 1. Direct staff to add a \$870,000 project contingency budget for 2024 to the 2024 – 2028 Provisional Financial Plan funded from 2023 surplus; and
 2. Direct staff to incorporate the new approach to project contingencies in future Financial Plans.
 - The advantages of this option: Allows for departments to address smaller scope changes/cost overruns and emerging opportunities/issues in a timely manner without canceling planned projects or having to return to Council for additional funding.
 - The disadvantages of this option: Reduction in surplus available to allocate to strategic priorities or reserves.
 - Financial Implications: The change will be included in the 2024 – 2028 Provisional Financial Plan with no impact to property taxes.
2. That Finance and Audit Committee recommend that Council direct staff to include a decision point in the 2024 – 2028 Financial Plan deliberations on a 2024 project contingency and possible funding options.

- The advantages of this option: Allows Council to review the entire 2024 – 2028 Draft Financial Plan prior to making a decision.

SUMMARY POINTS

- A General Fund project contingency budget will provide flexibility to departments to address small funding challenges/opportunities in a timely manner.
- Project contingency budget will be based on planned capital project budget and current market conditions.
- Historical contingency budgets were removed from the 2024 – 2028 Draft Financial Plan to accommodate other priority projects.

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